Book Review: Hall of Mirrors: The Great Depression, The Great Recession, and the Uses – and Misuses – of History

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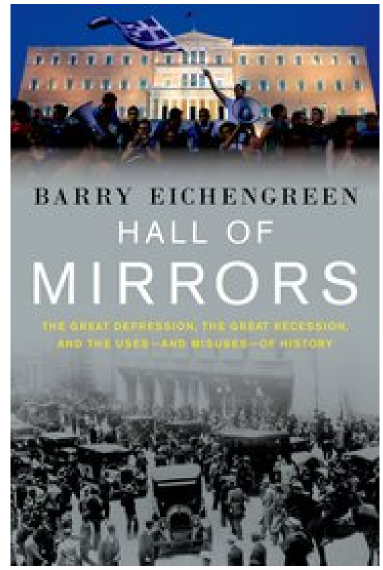
Hall of Mirrors *is a work of economic history that will be useful for academics, policymakers, and subject-matter experts, writes* ***John VerWey****, but some previous knowledge of the topics is required. The author convincingly argues that the Great Depression and Great Recession bear striking similarities, and with this work hopes to help policymakers recognize the rhymes before history repeats itself.*



Hall of Mirrors: The Great Depression, The Great Recession, and the Uses – and Misuses – of History. Barry Eichengreen. Oxford University Press. 2015.

It is said that history does not repeat itself, though it certainly rhymes. In his latest book, *Hall of Mirrors*, eminent economic historian Barry Eichengreen tests this aphorism in the context of the Great Depression and the Great Recession.

A leading scholar of the Great Depression and the interwar years more generally, Professor Eichengreen explores whether the lessons derived from that era's defining economic crisis were properly applied by policymaker's in the wake of the Great Recession in North America and Europe. His overriding message is that, though policymakers applied some of the key lessons from the previous crisis to the recent one, their efforts did not go far enough and resulted in both a tepid recovery and risk a deeper crisis in the future. In weaving together this argument, he analyzes the causes of and responses to each crisis, introducing a cast of key characters and colorful anecdotes to animate ostensibly dense topics.

Part 1 of the book, ominously titled "The Best of Times," establishes the history and conditions that led to both crises. Eichengreen convincingly argues that the "buildup of vulnerabilities [to the Great Recession] bore more than a passing resemblance to the 1920s." Both were fueled by bubbles (the Florida land boom then, and the subprime mortgage loans and a housing boom in peripheral European countries now) brought on by financial institutions assuming greater risk in a search for yield. This risk-appetite was bolstered in part by a perception that certain financial institutions were too big to fail. They also featured now-infamous villains (Charles Ponzi and Bernie Madoff) as well as destabilizing capital flows exacerbated by fixed exchange rate regimes (the gold standard then, and the Euro more recently) that removed the possibility of devaluation.

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Part 2 of the book, appropriately titled “The Worst of Times,” details the crashes that defined the two great financial crises of our age. Eichengreen’s previous scholarship on the Great Depression is apparent, with some clear parallels between the points made in one of his earlier books, *Globalizing Capital*, and this work, especially regarding the role of the gold standard and beggar-thy-neighbor trade policies leading to what he has characterized as a “slide to protectionism.” All the usual suspects are implicated, with leadership at the Fed, a protectionist Congress, and European countries more interested in maintaining domestic employment than international stability receiving due criticism.

Eichengreen’s description of the circumstances surrounding the Great Recession is similarly thorough. Ben Bernanke, Chairman of the US Federal Reserve from 2006 to 2014 and himself a scholar of The Great Depression, draws praise for injecting much-needed liquidity into the global financial system beginning in 2007. While Eichengreen believes this action and others like it provided the kind of systemic support that meant global GDP fell less than 1% from 2008-2009 (compared with 15% from 1929-1932), he is surprisingly critical of the Bernanke Fed for missing early warning signs of the impending crisis and failing to provide an open-ended guarantee of monetary stimulus once the crisis struck. He also turns his sights to European policymakers, disparaging their focus on austerity and fear of inflation in the face of weak employment and growth in the Eurozone. Parts III and IV of the book deal with the responses to both crises, reform efforts, and the similarities and differences between the two. Cumulatively, Eichengreen believes that the lessons applied from the Great Depression prevented a more severe crash, but the responses failed to significantly ameliorate the possibility of a deeper crisis in the future.

This begs the question of why, then, the responses to the crises differed and what more could have been done? In answering the former part of this question, Eichengreen believes that policymakers successfully applied some of the key lessons drawn from the Great Depression, especially the need for loose monetary policy in times of crisis. If anything, he is critical that the Fed did not inject more capital into the system. In explaining the disparity between the reform efforts, Eichengreen points out that the Great Depression was simply more severe and the limited size and complexity of the financial system made it easier to regulate. Thus, reforms like the creation of deposit insurance to eliminate bank runs, the Glass-Steagall Act separating commercial and investment banking, and the creation of the Securities and Exchange Commission all passed with limited opposition and clear mandates. In contrast, the 2010 Dodd-Frank Act’s creation of new regulatory agencies like the Consumer Financial Protection Bureau and the Financial Stability Oversight Council, as well as new requirements for ratings agencies, insurers, and shadow banks, addressed only small pieces of the financial system, passing after lengthy and contentious legislative deliberations.

In terms of what more could have been done this time around, Eichengreen is less forthcoming, and this reflects a trend in a book that is long on diagnoses and short on prescriptions. While he is adamant that the responses were adequate but not sufficient, he does not detail how the Fed or European Central Bank could have improved stimulus policies beyond making an earlier commitment to do “whatever it takes” to get their economies back on track. He also laments the Fed’s hesitance to bail out distressed lenders and the lack of meaningful regulatory reforms in the US, but only briefly talks about the hostility of the US political climate to such actions.

Hall of Mirrors is not written for the casual reader. It is a work of economic history that will be useful for academics, policymakers, and subject-matter experts, but some previous knowledge of the topics is required. Eichengreen convincingly argues that the Great Depression and Great Recession bear striking similarities, and with this work he hopes to help policymakers recognize the rhymes before history repeats itself.

John VerWey is a MSc Candidate in the International Political Economy program at the London School of Economics. He graduated from Gonzaga University (WA) with degrees in history and Asian Studies and previously worked for the American Enterprise Institute in Washington, DC.

Author Barry Eichengreen gave a public lecture at the LSE about his book; you can listen here.